

# Exemption for Certain Equipment Used in the Manufacturing/Mining/Web Search Process

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*REVENUE AND TAXATION INTERIM COMMITTEE*

Sales Tax Exemption, Potential Static Accounting of Revenue  
Impact by Eliminating 3-Year Threshold, FY 2017

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Manufacturers	(\$43,890,594)
Mining	(\$12,878,818)
Web Search Portal	(\$36,902)

## Static Fiscal Impact

# What is a Dynamic Fiscal Note?

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A static fiscal note assumes a few things: first, it assumes no behavior responses; second, it assumes that tax policy has no effect on business or consumers.

A dynamic note (DFN) changes these two assumptions. It assumes that tax policy affects businesses and consumers and that behaviors respond to incentives.

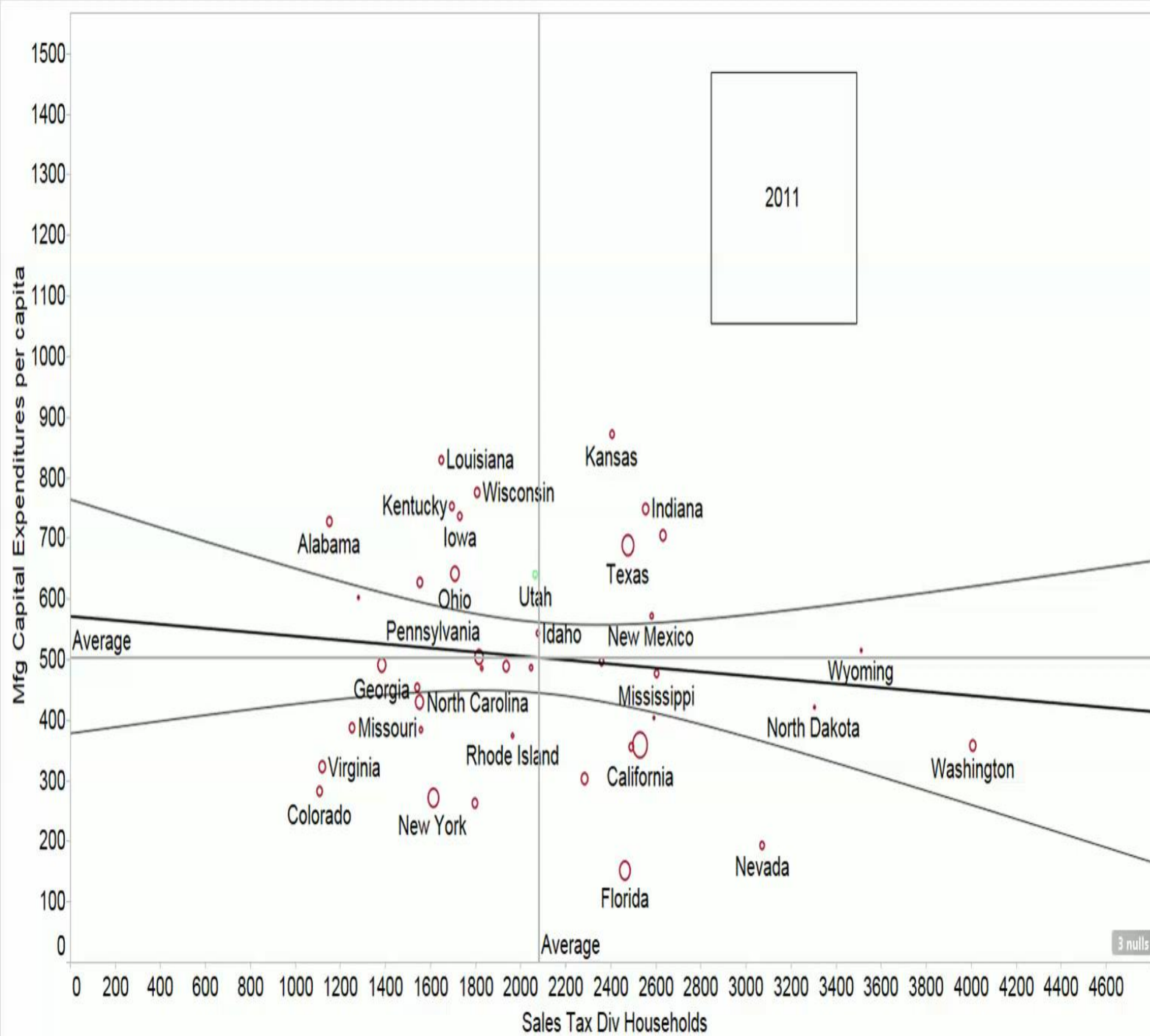
The DFN also looks at potential opportunity costs.

Note: A DFN is not a cost benefit analysis. Not intended to influence the passage of a bill.

# Scenarios

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- Static: Current snap shot
- Scenario 1: Do nothing with the money, allow collections to accrue interest
- Scenario 2: Government spends money (or reduces spending)
- Scenario 3: Government doesn't spend the money; nominal private sector reaction
- Scenario 4: Government doesn't spend the money; stronger private and consumer reaction



# Background on Dynamic Fiscal Impact of Manufacturing



# DYNAMIC FISCAL ANALYSIS

Sales Tax Exemption for Manufacturing and Mining Purchases with an Econ. Life of Less Than 3 Years

2016 General Session

Sales Tax Exemption Amendments

by No sponsor



STATIC IMPACT (See fiscal note for details)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund <sup>1</sup>	-\$56,770,000	-\$58,470,000	-\$60,220,000	-\$62,030,000	-\$63,890,000		-\$74,070,000
Education Fund							
Total	-\$56,770,000	-\$58,470,000	-\$60,220,000	-\$62,030,000	-\$63,890,000		-\$74,070,000

## SCENARIO 1: DO NOTHING

Do not make the tax policy change proposed by this bill, do not spend proceeds on government programs, deposit money in reserve.

Dynamic Impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	\$1,029,200	\$1,622,500	\$1,833,700	\$1,888,800	\$1,945,500		\$2,148,000
Education Fund							
Total	\$1,029,200	\$1,622,500	\$1,833,700	\$1,888,800	\$1,945,500		\$2,148,000
Diff From Static	\$57,799,200	\$60,092,500	\$62,053,700	\$63,918,800	\$65,835,500		\$76,218,000
Jobs	0	0	0	0	0		0
Wages (millions)	\$0	\$0	\$0	\$0	\$0		\$0
Gross Domestic Product (GDP) (millions)	\$0	\$0	\$0	\$0	\$0		\$0

DYNAMIC FISCAL IMPACT, PART 1

## SCENARIO 2: GOVERNMENT SPENDING

Do not make the tax policy change proposed by this bill but spend collections on government programs. The multiplier is about 0.84. Commonly estimated government spending multipliers ( $\Delta\text{GDP}/(\Delta\text{Government Spending})$ ) range from 0.7 to 1.3. The multiplier value depends upon economic conditions, interest rates, expected tax policy, geographic region, past and expected government spending policy, and various other assumptions. The multiplier is on the lower end currently because of higher expected interest rates and strong economic conditions (unemployment rate in Utah is 3.9%). The dynamic revenue stems from the revenue connected with state government spending.

Dynamic Impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	-\$56,103,500	-\$57,692,500	-\$59,349,900	-\$61,104,400	-\$62,908,800		-\$72,922,200
Education Fund	\$1,115,500	\$1,301,500	\$1,456,400	\$1,549,400	\$1,642,300		\$1,921,200
Total	-\$54,988,000	-\$56,391,000	-\$57,893,500	-\$59,555,000	-\$61,266,500		-\$71,001,000
Diff From Static	\$1,782,000	\$2,079,000	\$2,326,500	\$2,475,000	\$2,623,500		\$3,069,000
Jobs	666	689	702	700	689		617
Wages (millions)	\$36.0	\$42.0	\$47.0	\$50.0	\$53.0		\$62.0
Gross Domestic Product (GDP) (millions)	\$49.0	\$53.0	\$56.0	\$58.0	\$59.0		\$61.0



### SCENARIO 3: MARGINAL BUSINESS RESPONSE

Make tax policy change proposed by this bill. Do not spend on government programs. Manufacturing and mining companies treat the tax reduction as a cost savings and reinvest the savings in production/output.

Dynamic Impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	-\$56,381,200	-\$57,822,000	-\$59,349,900	-\$60,956,200	-\$62,631,100		-\$72,070,600
Education Fund	\$650,700	\$1,084,500	\$1,456,400	\$1,797,200	\$2,107,100		\$3,346,600
Total	-\$55,730,500	-\$56,737,500	-\$57,893,500	-\$59,159,000	-\$60,524,000		-\$68,724,000
Diff From Static	\$1,039,500	\$1,732,500	\$2,326,500	\$2,871,000	\$3,366,000		\$5,346,000
Jobs	396	572	713	819	899		1,067
Wages (millions)	\$21.0	\$35.0	\$47.0	\$58.0	\$68.0		\$108.0
Gross Domestic Product (GDP) (millions)	\$36.0	\$56.0	\$74.0	\$90.0	\$104.0		\$157.0

### SCENARIO 4: STRONG BUSINESS RESPONSE

Make tax policy change proposed by this bill. Do not spend on government programs. Manufacturing and mining companies treat the tax reduction as a cost savings, plus savings induces outside investment and employment. The presumed employment shifting is 750 employees of manufacturing and mining companies in 2017 and growing thereafter.

Dynamic Impact	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	...	FY 2026
General Fund	-\$52,160,300	-\$50,972,200	-\$51,000,500	-\$51,311,000	-\$51,801,000		-\$55,371,900
Education Fund	\$7,715,800	\$12,549,700	\$15,431,500	\$17,941,500	\$20,234,500		\$31,296,900
Total	-\$44,444,500	-\$38,422,500	-\$35,569,000	-\$33,369,500	-\$31,566,500		-\$24,075,000
Diff From Static	\$12,325,500	\$20,047,500	\$24,651,000	\$28,660,500	\$32,323,500		\$49,995,000
Jobs	3,948	5,952	6,807	7,392	7,809		9,196
Wages (millions)	\$249.0	\$405.0	\$498.0	\$579.0	\$653.0		\$1,010.0
Gross Domestic Product (GDP) (millions)	\$522.0	\$793.0	\$922.0	\$1,034.0	\$1,137.0		\$1,686.0

<sup>1</sup> Used throughout this note, General Fund includes sales tax earmarks